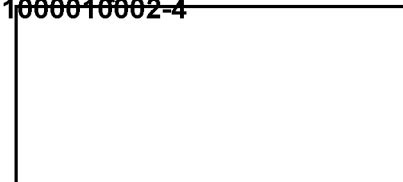




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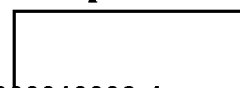
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National Intelligence Daily (Cable)

8 January 1979

State Dept. review completed

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SITUATION REPORT: Iran

Prime Minister Bakhtiar has had little success in securing moderate opposition support for his new government, which does not include any opposition figures. More demonstrations denouncing Bakhtiar took place in Tehran and other cities yesterday.

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//Bakhtiar's cabinet consists mostly of senior civil servants and respected professional men. One second-echelon opposition figure who Bakhtiar had hoped would join the cabinet told US officials that he was totally opposed to the new government, which he characterized as too little, too late. The source reiterated that the Shah must leave the country before the moderates will break with Khomeini.//

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Bakhtiar persuaded retired General Jam to become Minister of War. Jam is likely to press the Shah to give him control over the day-to-day operations of the military.

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Bakhtiar left several cabinet positions vacant and took the Interior Minister post himself. The new Minister of Foreign Affairs is Ahmad Mir-Fendereski, a former official in the Foreign Ministry who was fired in 1973 for allowing Soviet overflights to resupply the Arabs during their war with Israel.

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Zahedi has long urged the Shah to crack down on the opposition. We believe that if Zahedi and other hardliners in the court now favor the Shah's departure, their change probably reflects their frustration with his refusal to order a crackdown. We doubt that Zahedi expects Bakhtiar to implement the "iron fist" approach, and Zahedi probably prefers that the military do so. The Shah has still not set a departure date, and his public comments remain vague on his plans.

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SITUATION REPORT: Vietnam-Kampuchea-China

Following the capture of Phnom Penh, the Vietnamese now control the eastern third of Kampuchea. Prince Sihanouk left Phnom Penh on Saturday and has stopped in Beijing (Peking) on his way to New York, where he will present Kampuchea's case against Vietnam to the UN Security Council. Other Kampuchean leaders, including Foreign Minister Ieng Sary, saw Sihanouk off, but their current whereabouts are unknown.

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Soviet media were prompt in covering the fall of Phnom Penh and lavish in their praise. The Soviet news agency TASS initially published a dispatch from Hanoi

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stating the Kampuchean insurgents' goals. Soon thereafter, prominent Soviet commentator Yury Kornilov said that there will be "deep satisfaction" throughout the world because the Pol Pot - Ieny Sary "clique" had resorted to genocide and was a tool of China's "expansionist policy." Radio Moscow's domestic service bluntly termed the development a "defeat" for China and complained that the Chinese are considering convoking the UN Security Council to discuss Vietnam's "mythical aggression."

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BRIEFS AND COMMENTS

ITALY: Decisive Test for Government

Prime Minister Andreotti is scheduled to present his proposed economic stabilization plan for cabinet approval this week. Failure to resolve interparty differences over the plan could bring down the government and lead to Communist demands for direct participation in a new one.

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Two trends in particular have strained government cohesiveness in recent months. Signs of Communist vulnerability--such as losses in local elections and growing discontent in the party's working-class base--have made many Christian Democrats more reluctant to grant new concessions to the Communists in return for their continued parliamentary support of the Christian Democratic government. At the same time, the Communist leadership has come under increasing internal pressure to demonstrate that cooperation with the government produces tangible benefits for party supporters.

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The parliamentary debate on the economic plan is shaping up as the decisive test for the Andreotti government. Christian Democrats want the plan to focus on anti-inflation measures and are likely to resist expected Communist efforts to emphasize the creation of more jobs. Compromise will be complicated by major labor contract negotiations scheduled to begin this month.

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The absence of agreement on an alternative governing formula is a strong incentive to flexibility on both sides, however, and there are signs that the major parties are growing more inclined to make concessions. Nevertheless, it will be difficult for political leaders to dampen the crisis atmosphere that has developed. If the Andreotti government does fall, protracted negotiations centering on the question of increased Communist participation are likely--negotiations that could lead to a stalemate and a new parliamentary election.

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INDONESIA: Possible Fuel Price Increase

Indonesian consumers, particularly in the opposition, will be watching President Suharto's annual budget message today for any reduction in the government's large subsidy on domestic petroleum products. The subsidy has become increasingly expensive and has encouraged excessive consumption, which has diverted crude oil that could have been exported. Indonesian Government economists reportedly have recommended that Suharto raise domestic fuel prices by 50 percent, but the issue is politically sensitive and past increases have touched off demonstrations. [REDACTED]

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ZAIRE: Prospects for Unrest

The potential for unrest in Zaire this year is high--largely because of economic and social grievances. According to the US Embassy, however, only a large-scale upheaval in Kinshasa would present an immediate threat to President Mobutu. The capital's population is becoming progressively impoverished, but the city remains relatively calm despite heightened tensions. Factors such as fear of a replay of the rampant civil disorders of the 1960s and the innate tolerance of many Zairians lessen the possibilities for upheaval. [REDACTED]

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OVERNIGHT REPORTS

(The items in the Overnight Reports section have not been coordinated within the intelligence community. They are prepared overnight by the Office of Current Operations with analyst comment where possible from the production offices of NFAC.)

Hungary

The government has announced price increases for several consumer goods, including an average 25-percent boost for gasoline, effective today. The increases are in line with previously announced plans to reduce or abolish many subsidies for consumer goods over the next several years. Budapest has been the leader in Eastern Europe in periodically raising prices of selected consumer goods over and has been able to do so without prompting a serious popular backlash. The price rises have frequently been offset by wage increases, but none were mentioned in the official announcement on Saturday.

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West Germany

Press reports indicate that the six-week strike which has idled much of the West German steel industry may end soon. Negotiators reached agreement early yesterday. An end of the strike would remove a potentially divisive issue for the governing coalition of the Social Democrats, who have strong labor support, and the Free Democrats, who are sympathetic to business interests. The strike has not yet had a significant effect on the West German economy.

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